



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Ngaka Modiri Molema District Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Municipal Systems Act and Division of Revenue Act of South Africa 2010 (Act No. 1 of 2010) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well

as evaluating the overall presentation of the financial statements.

I believe that I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion

Qualified opinion

Opening Balances

6. The corresponding figure for other income of R 2 889 824 has not been restated in order to address a prior year misstatement
7. The corresponding figure for commitments of R 45,225,172 has not been restated in order to address a prior year misstatement.

Employee Cost

8. Treasury Regulation 17.1.2 requires the sources of the transactions in a clearing account to be readily identifiable to confirm the balance of the account. This information could not be provided for the journals to the clearing account of R8 792 160.94. The entity's records did not permit the application of alternative audit procedures regarding the journals to the clearing account. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and obligations pertaining to the clearing account balance.

Revenue

9. The entity could not provide sufficient appropriate audit evidence to support other income of R1 753 652. Furthermore, included in Other Income is deposits received for yard connections. There was no system of internal control to account for deposits received, and supporting documentation thereof. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that other income was properly recorded. Consequently, I was unable to determine the occurrence, completeness, accuracy, cut-off and classification of revenue disclosed as R9 543 716 in the statement of financial performance.

Expenditure

10. Included in expenditure is R35 983 543 that the municipality could not provide supporting documentation for. Furthermore expenditure amounting to R2 153 138 was not classified correctly in various expenditure accounts. Consequently, I was unable to verify the occurrence, completeness, accuracy, cut-off and classification of expenditure for the year. The municipality records did not permit the application of alternative procedures.

Irregular Expenditure

11. Section 125 (2) (d) of the MFMA requires that the notes to financial statements of the municipality must include particulars of any material losses and any material Irregular, Fruitless and Wasteful Expenditure. Payments amounting to R4 946 805 were made in contravention of the supply chain management requirements. The amount was not included in irregular expenditure, disclosed in note 25 to the financial statements, resulting in irregular expenditure being understated by R4 946 805.

Qualified opinion



19. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the the Ngaka Modiri Molema District Municipality as at 30 June 2010 and its financial performance and cash flows for the year then ended, in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Municipal Systems Act and Division of Revenue Act of South Africa 2010 (Act No. 1 of 2010) (DoRA).

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unauthorised, irregular and fruitless and wasteful expenditure

20. As disclosed in note 25.1 to the financial statements, unauthorised expenditure of R580 969 was incurred due to overspending of the budget.
21. As disclosed in note 25.2 to the financial statements, irregular, fruitless and wasteful expenditure of R 16 405 184 was incurred due to non compliance with supply chain management regulations. The amount was disclosed in the prior year financial statements.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

22. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

23. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations MFMA; Division of Revenue Act of South Africa, 2009, No 12 of 2009 (DoRA); Municipal Systems Act of South Africa, 2000, No 32 of 2000 (MSA); Municipal Structures Act of South Africa, 1998, No 117 of 1998, and financial management (internal control).

Predetermined objectives

24. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Usefulness of reported performance information

25. The following criteria were used to assess the usefulness of the planned and reported performance:
 - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Reported information not consistent with planned objectives, indicators and targets

Ngaka Modiri Molema District Municipality has not reported on its performance against predetermined targets

Reliability of reported performance information

26. The following criteria were used to assess the usefulness of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

Reported targets not reliable when compared to the service delivery budget implementation plan

27. There are no clear, reliable or measurable targets set in the IDP. When following to the SDBIP, the performance targets/indicators are also not clear, reliable in terms of relevancy.
28. Unclear, unreliable and targets that have measurability issues make reporting difficult or that inappropriate detail is reported.

Non-compliance with regulatory requirements

Performance audit committee

Ngaka Modiri Molema District Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

Ngaka Modiri Molema District Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA

Performance agreements

Even though section 139 (1) (b) Notice for intervention was invoked on the municipality, the council had exercised powers in relations to (1) passing of the IDP and budget and passing by-laws and policies. The municipality still had the responsibility to implement the IDP and as a result all the senior managers should sign performance agreements that are in line with the implementation of the IDP. The performance agreement for senior management personnel are not signed for the year under review.

Quarterly Performance Reports

The first and second quarter performance reports were not submitted for audit. Even though section 139 (1) (b) Notice for intervention was invoked on the municipality, the council had exercised powers in relations to (1) passing of the IDP and budget and passing by-laws and policies. The municipality still had the responsibility to implement the IDP and as a result, all monthly and quarterly reports should be performed and submitted to Treasury and Department of Local Government.

Submission of the copy of the IDP to the MEC for local government

There is no proof that the municipal manager submitted a copy of IDP as adopted by the council of the municipality and any subsequent amendments to the plan, to the MEC of Local Government in the province within 10 days of the adoption or amendment of the plan as stipulated by section 32 of Municipal System Act 32 of 2000

Performance management system

Ngaka Modiri Molema District Municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001

The SDBIP was not approved within 28 days of adoption of the IDP

The budget was not approved before the start of the current financial year, and the SDBIP was not adopted 28 days after the adoption of the Budget.

The Target dates as per the process plan were not achieved and as a result of the above, the municipality did not establish and does not have the process plan as prescribed by section 28 Municipal System Act 32 of 2000

Compliance with laws and regulations

Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA),

Unauthorised, irregular and fruitless and wasteful expenditure

Unauthorised,irregular and fruitless and wasteful expenditure was not manged as precribed in section 32

Expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality as set out in section1 the definition of "irregular expenditure" paragraph (d) of the MFMA

Expenditure was not paid within the parameters set by the applicable legislation

Expenditure was not paid within the required 30 days from the receipt of an invoice, or such a period as prescribed in section 65(2)(e)

Internal Audit

The internal audit unit of the municipality did not fulfil its responsibilities as required by section 165

Audit Committee

The audit committee did not perform their functions and dischagred their mandate adequately as required by section 166

Budgets



Evidence could not be obtained that the mayor has, at least within 10 months tabled time schedule outlining key deadlines for preparation, tabling and approval of annual budget; annual review of integrated development plan and budget related policies; the tabling and adoption of any amendments to the integrated development plan and budget related policies and any consultative processes forming part of the processes. This is contravention with section 24(3) of the MFMA.

Evidence could not be obtained that the mayor informed the MEC for Finance and National Treasury of non-compliance with MFMA pertaining to tabling or approval of annual budget or compulsory consultation process and the remedial actions to prevent its recurrence section 27 (1) and (3) of the MFMA

Annual financial statements

Contrary to section 126 of the MFMA, the financial statements of the municipality were not submitted within the legislative deadline of 31 August 2010 for audit.

Section 71 reports

Ngaka Modiri Molema District Municipality did not submit signed return on their conditional grant spending for the year-ended 30 June 2010 according to the list submitted by National Treasury within 10 working days as stipulated by section 71 of the MFMA.

Bank reconciliations

The municipality did not comply with section 98 of the MFMA in that bank reconciliations were not performed on a regular basis.

Municipal Systems Act, 2000 (Act No. 32 of 2000),

The accounting officer did not submit the draft service delivery and budget implementation plan to the mayor

There was no evidence that accounting officer had no later than 14 days after the approval of an annual budget, submitted to the mayor (a) draft service delivery and budget implementation plan for the budget year and (b) drafts of the annual performance agreements as required in terms of section 57(1) (b) of the Municipal Systems Act for the municipal manager and all senior managers.

Declaration of interest

The Councillors and management of the Ngaka Modiri Molema District Municipality did not disclose their interests in the Declaration of interest register as per schedule 1 of the MSA.

The municipal council did not approve tariffs

The municipal council did not approve tariffs for accommodation in accordance with section 11(3)(i) of the Municipal System Act No.32 of 2000

Treasury Regulations

The municipality did not comply with treasury regulation 9.1.1 in that they did not exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and did not implement effective, efficient and transparent processes of financial and risk management.

INTERNAL CONTROL

29. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, DoRA but not for the purpose of expressing an opinion on the effectiveness of internal control.

30. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

The accounting officer does not exercise oversight responsibility over financial and performance reporting and compliance with applicable laws and regulations. An effective organisational structure that places people with appropriate skills is not established.

- **Financial and performance management**

The finance and supply chain management departments are not staffed with competent personnel which resulted in material amendments to the financial statements submitted for audit and non compliance to supply chain management regulations. Furthermore due to inadequate record keeping and record management, requested information was not always available as per agreed timeframes.

- **Governance**

Proper governance structures are not in place and not functioning effectively as ongoing monitoring and supervision by internal audit are not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting. A fraud prevention plan is not documented and used as per the requirements of applicable legislation. The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice furthermore the annual financial statement and performance report are not reviewed prior to submission for audit.

Rustenburg
18 August 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence